

# The Phone Co-op Limited

**The mobile industry  
– time for re-regulation**

**Comms Provider 16 October 2008**

**Vivian Woodell  
Chief Executive  
The Phone Co-op**

## Ofcom's review is timely

- The mobile and fixed line industries work in quite different ways despite the common regulator
- Some aspects of the way they are converging should concern us from a competition standpoint
- We believe regulation should encourage diversity and innovation, not uniformity
- If it doesn't, perhaps the regulatory framework suits the existing industry players too well!
- Thanks for the opportunity to respond

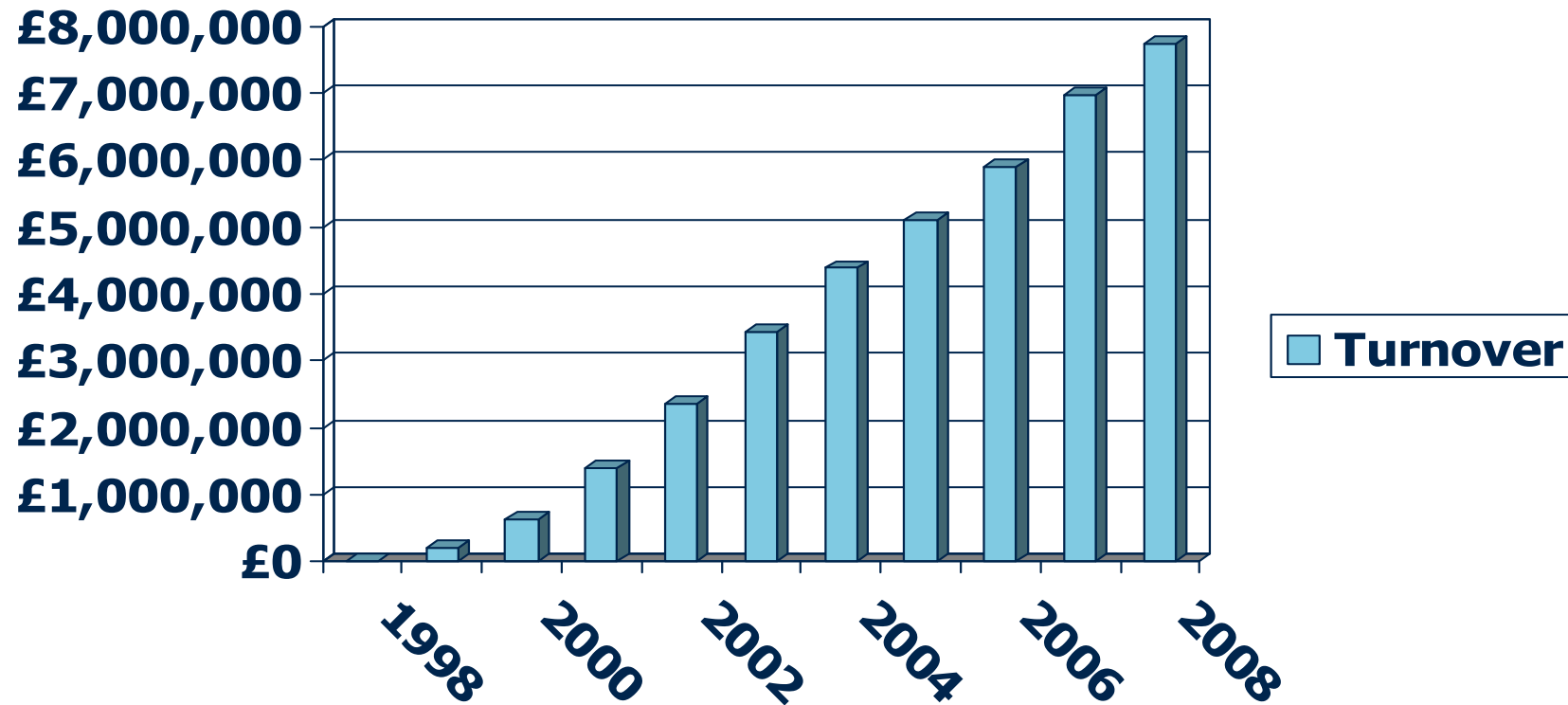
## Time to re-regulate the mobile industry

- It is time to take a completely fresh look at the regulation of the mobile industry
- The way the mobile market is currently regulated has its origins in an entirely different situation – the need to encourage investment in new infrastructure
- The industry is now essentially mature and regulators need to look ahead rather than backwards
- If we don't change there is a real risk of contradictions as fixed and mobile converge
- Service providers have a key role but are being prevented from fulfilling it properly

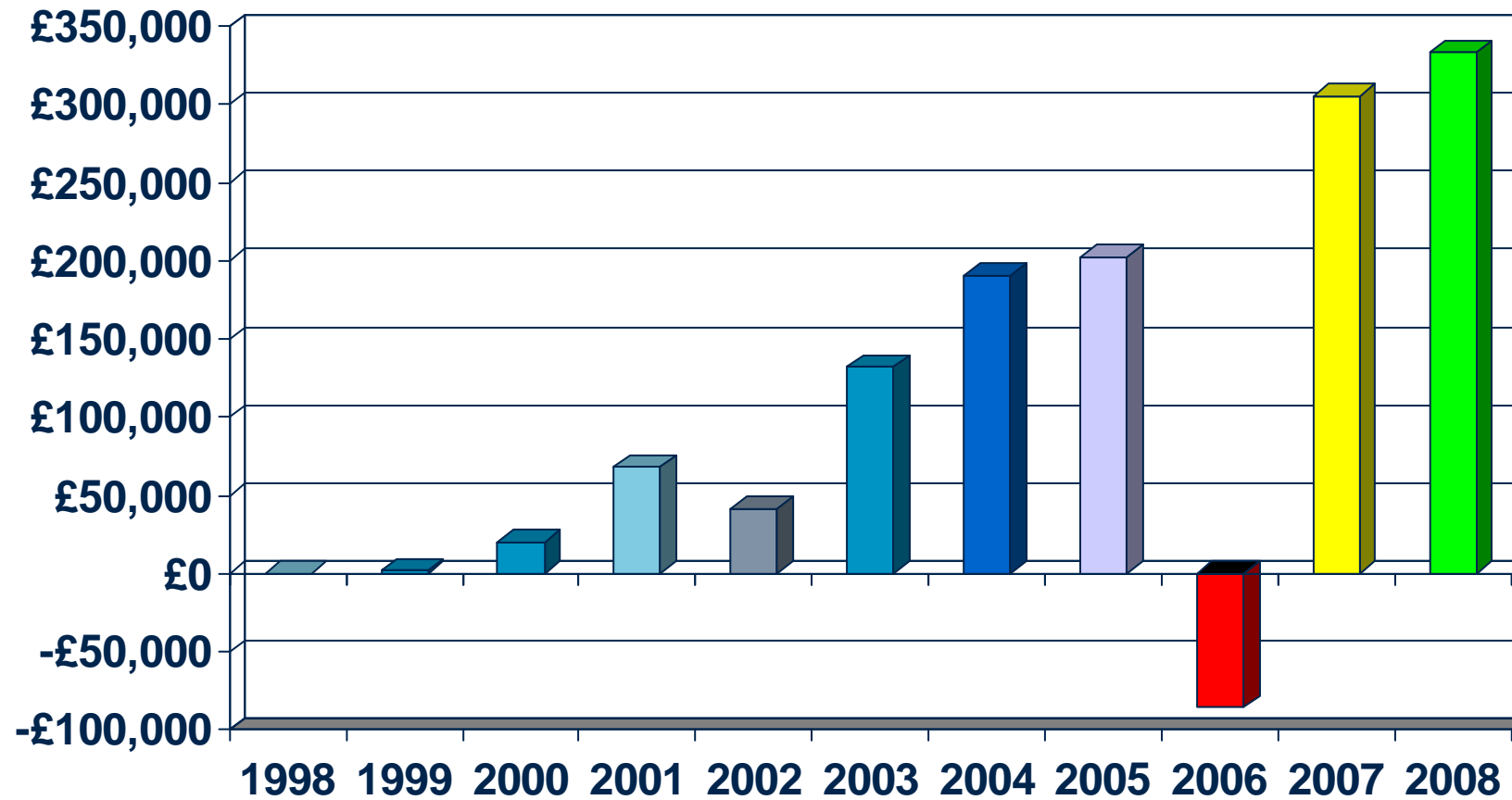
## About The Phone Co-op

- The Phone Co-op is unique
  - A service provider owned and democratically controlled by its customers
- 15,000 residential and business customers
- 7,200 members
- Shares our profit with members through a dividend on spend
- 10-year trading history
- We can claim to be a consumer champion

# The Phone Co-op: Turnover growth



## Profit before distributions



## Different starting points but we need to regulate for the future not the past

- Mobile had a different starting point to fixed line
- Initially, as new entrants, mobile operators needed to see a good return on their investment to encourage them to roll out networks across the country.
  - This meant allowing them to charge high prices and recover their investment fairly quickly.
- Now, the cost of mobile infrastructure is arguably lower than that of fixed line, the operators' offers are very similar.

## Convergence, not just of technologies

- But it is not just the technologies that are converging
  - The market positions of the dominant players are also becoming more analogous
- The growth of co-operation at network level between the operators means that the network infrastructure is becoming increasingly integrated – it's not quite another Openreach yet but we are moving in that direction

## Market convergence

- We are seeing the shift towards an oligopoly in residential service provision in fixed line as well as more generally in mobile, with vertically integrated providers offering increasingly similar packages
  - The role of service providers is under threat in fixed line, especially in the residential market
- Ofcom should think hard about whether this is what it really wants. SPs have an important role to play

## Why are service providers important?

- SPs understand the market
- They have real pricing leverage with networks
- They are not bamboozled by headline rates – this is their industry and they know what to look for
- SPs can innovate with tariffs, distribution methods, and can deliver quality to different standards
- SPs provide choice to end-users

## The role of MVNOs

- Analysys Mason: “Network operators retain significant power over service providers since the network operators are suppliers to service providers and are also service providers themselves. There is therefore little incentive for mobile operators to negotiate a deal in favour of MVNOs”
- Own experience when talking to a MNO: Not interested unless you are Tesco.
- There are significant barriers to entry for MVNOs
- MNOs have the upper hand, discouraging competition from MVNOs

## Separation of infrastructure and service provision

- We should work towards the separation of network operation and service provision.
  - The vertically integrated model entrenches oligopoly market power which does not increase choice to consumers or promote innovation in service provision
- This should not mean that network operators are debarred from being service providers (which was originally the case when analogue mobile operators started in the UK) but they should be required to offer wholesale access to other SPs, and this should be regulated.

## Going virtual

- An option which could be considered is to make all service providers “virtual networks” and enable them to access any MNO’s infrastructure. SPs would then negotiate commercially the deals they want to do with MNOs, and with carrier networks for termination
  - This would open up the possibility of new MNOs setting up to offer more choice to SPs – improving coverage and reducing costs
  - Entrepreneurs in “not spots” could set up local networks to provide coverage and sell access to SPs (could be community-owned)
  - Also opens up the possibility of convergence with other technologies such as Wimax and a more rapid move to fixed/mobile convergence
  - In any case should improve coverage

## Going virtual continued...

- This approach would remove the concept that networks compete on coverage
- Coverage for everyone would be better
- People would not be forced to choose a provider simply as a result of the coverage available where they need it
  - A hidden form of SMP
- Instead the emphasis would be on SPs differentiating themselves in other ways
- This would increase choice, open up competition and innovation at different points in the value-chain, and encourage improvements in price and quality

## Indirect access on mobile networks

- IDA/CPS should be introduced on mobile networks
- Users would be able to select the provider they want to terminate their calls
- Would mean MNOs couldn't charge excessive prices for certain types of calls
  - They certainly do at the moment – e.g. PRS/Non-Geo/many international calls)
  - Currently we are still in the “dark ages” of dial-through access for people who want cheaper solutions and take up is minimal.

## Indirect access - implications

- This change would mean that costs of call origination on mobile networks would become more transparent, and would be regulated, just as ingress costs are in fixed line.
- If fixed charges cover infrastructure costs, ingress need not be high

## Indirect access - implications

- Possible move towards “basic” line rental for handset access covering share of infrastructure costs + choice of providers for calls
- To ensure that low-volume users (pre-pay) are not penalised, an option should remain for customers to have a zero fixed charge, paying a higher amount for calls, which could be delivered by any network. The infrastructure element would be funded by a levy similar to the PAL – effectively an ingress surcharge.

## Increasing competition in mobile broadband

- In the mobile broadband arena, operators should be required, as BT is, to offer L2TP interconnection, thus enabling other ISPs to sell services over any mobile connection
- Would enable ISPs to offer services seamlessly across fixed and mobile, driving the benefits of convergence
- MNOs would also be able to sell their own broadband products to SPs.

## We need a new conceptual framework

- The current concept of “significant market power” is flawed
  - Currently means overwhelming market power
  - Needs to be widened to cover oligopolies and large vertically integrated providers
    - i.e. account should be taken of overall impact of the operator, not just its impact at a particular point in the value chain
- Fixed-mobile convergence means that there is the potential for Ofcom to start regulating the two as one (i.e. to consider the whole competitive environment encompassing both technologies).

## Why not keep the framework as it is?

- Unless Ofcom changes its conceptual framework, between fixed and mobile may lead it eventually to conclude that there is sufficient competition in the combined space (7 network operators) for them to free BT completely from a requirement to supply wholesale and for the access requirements for CPS/IDA/LLU/L2TP-IPStream to be taken away
- The emergence of Virgin Media should also be looked at in this context

## Low income users would benefit

- The way the MNOs price their services to different people is fundamentally socially inequitable.
- Describing pre-pay services, the Ofcom report says: “Headline prices fell but less visible charges became more important”
- The report also shows that nominal prices actually rose for a typical pre-pay customer

## Low income users would benefit

- It is mainly less well-off people (as well as children and low volume users such as pensioners) who end up on expensive pre-pay tariffs.
- This is not a feature of the fixed line networks, and the early evolution of calling cards etc. actually helped lower income people.
- Opening up the industry would help address this

## Conclusion

- The time has come to think “out of the box”
- The UK has led the way in telecoms regulation
- The rest of the world looks to us for innovation
- Breaking the vertical oligopoly model and moving to a clear separation of the different parts of the value-chain, with competition in each, would give Ofcom the chance, once again, to be in the vanguard of regulation globally.

## Contact details

- [www.thephone.coop](http://www.thephone.coop)
- Tel 0845 458 9000
- Fax 0845 458 9001
- [enquiries@thephone.coop](mailto:enquiries@thephone.coop) (general)
- [Vivian@thephone.coop](mailto:Vivian@thephone.coop) (Vivian Woodell)